

AR35



# Canadian Merrill Ltd.

The 21st Annual Report to June 30, 1972



**Directors**

Mathew M. Baldwin  
Charles Bouffard  
C. Antoine Geoffrion, Q.C.  
Lee H. Hallowell  
Randolph P. Mills  
Hubert J. Mockler  
Horace ReKunyk  
R. L. Segsworth

**Officers**

*Chairman of the Board*  
Randolph P. Mills

*President*  
Hubert J. Mockler

*Vice-Presidents*  
Horace ReKunyk  
Mathew M. Baldwin

*Secretary*  
Ian C. Miller

*Treasurer*  
Robin J. Mayes, C.A.

*Mine Manager*  
Edward W. Watt  
Chibougama, Que.

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**Transfer agent & registrar**

Canada Permanent Trust Company,  
600 Dorchester Blvd. West,  
Montreal 101, Quebec.

1901 Yonge Street,  
Toronto, Ontario.

315 8th Avenue S.W.,  
Calgary, Alberta.

The Canadian Bank of Commerce  
Trust Company,  
20 Exchange Place,  
New York, N.Y. 10005, U.S.A.

**Head Office**

Suite 400, 621 Craig Street West,  
Montreal 101, Quebec.

**Executive Office**

Suite 3108, Tower One,  
Toronto Dominion Centre,  
Toronto, Ontario.

**Auditors**

Price Waterhouse & Co.,  
5 Place Ville Marie,  
Montreal 113, Quebec.



## Highlights

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Acquisition of Provident Resources Ltd. of Calgary through exchange of shares.

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Purchased oil and gas reserves from past participants in Provident Oil and Gas Programs.

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Completed acquisition of balance of Baldwin & Knoll Limited and Central Mining Corporation through exchange of shares.

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Acquisition of L & M Oilfield Equipment Ltd. of Edmonton on a share exchange basis.

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Signed an agreement with Perch River Mines to undertake approximately \$300,000 of exploration and development work on that company's Mistassini Lake area property. For such expenditures Merrill can earn up to 50% interest in property.

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Total gas reserves including amounts purchased and through new discoveries increased to 159 Billion cubic feet from 64 Bcf.

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*The annual meeting of the  
shareholders of Canadian  
Merrill Ltd. will be held  
in The Windsor Hotel,  
Montreal, Canada,  
Tuesday, the 31st day of October, 1972  
at 11:00 local time.*

# To the Shareholders of CANADIAN MERRILL LTD.

It is with pleasure that the Directors present the twenty-first Annual Report of Canadian Merrill Ltd. for the year ended June 30, 1972.

During the fiscal year just ended your company completed several important transactions which materially altered the character and direction of the corporation. Although most of these developments are highlighted on the previous page, your management believes that because of their significance each should be dealt with in more detail.

At the Annual Meeting held in Montreal on December 15, 1971, shareholders approved the 100% acquisition of Provident Resources Ltd. of Calgary.

The effect of this step was to double the assets of Canadian Merrill. Of greater importance, however, it enabled this company to enter in the exciting petroleum industry under very favourable conditions. The possibility of participating in the oil and gas business had been under consideration for some time, but unfortunately the only opportunities presented to us entailed highly speculative wildcat drilling ventures.

Such situations contained risks which were not acceptable to this company. Provident, on the other hand, brought with it proven reserves of oil and gas, a small but interesting acreage spread, and more importantly, a highly competent staff with a proven record of success.

Since the acquisition, Provident has continued to demonstrate its ability to find petroleum by adding substantially to its reserves. Moreover, natural gas reserves contracted to the gas purchasing company were renegotiated adding materially to the company's contracted reserves in the Birch Lake area. Other important factors in the Provident acquisition are that the cost basis was attractive and the company brought with it an existing cash flow which will rise sharply in the years ahead as more of its reserves come on stream.

Immediately after completing the share exchange for Provident your company made an offer to a group of U.S. residents to purchase for cash all of their interests in various oil and gas properties in Canada. Some 959,000 barrels of oil and 36.5 billion cubic feet of natural gas was tendered under the offer for a total consideration of \$2,250,000.

The funds required for this transaction were provided from working capital and from the company's bankers at current rates of interest over a six-year term. The bulk of the reserves are now on stream and are generating sufficient cash flow to cover the principal and interest on the bank loan.

Toward the end of the year a Special General Meeting was called for the purpose of acquiring the balance of the shares of Baldwin & Knoll Limited and of Central Mining Corporation not already owned by Canadian Merrill. This move

enabled your company to set the machinery in motion whereby it will acquire 100% of Baldwin & Knoll Limited. To date the company has effectively acquired 99.8% of this subsidiary. Although B & K is not directly involved in the extraction of natural resources, its earnings and growth are entirely related to the oil and gas business and for that reason does not represent a departure from your company's basic interests. There is considerable scope for further expansion and diversification in those areas which service the petroleum industry and it is your management's intention to explore several possibilities in this connection.

Coincident with the acquisition of Baldwin & Knoll, your company also acquired all of the shares of L & M Oilfield Equipment Ltd. of Edmonton. While this company has only been in operation for a short time it is staffed by personnel that have many years of experience in the leasing and sale of equipment to the oil and gas industry. Moreover, and of equal importance is that equipment sales and leasing is a logical extension of our growing interest in the service area. At the moment L & M is actively examining several possibilities which could substantially enlarge the nature and scope of its operations.

While it appears that a good deal of our efforts have been aimed at increasing our asset position and earning power in the oil and gas industry, we have not necessarily neglected the mining side of the business. In fact, just prior to the year end an agreement was concluded

with Perch River Mines Limited which owns a very promising copper prospect near the site of the Icon mine. Previous diamond drilling on this property indicated a small medium-grade, although erratic ore body. The characteristics of the mineralization and the host rock bear a striking resemblance to the Icon ore body and leads our engineers to believe that it may well be a repetition of that situation. In order to determine the exact character of this it will be necessary to go underground and obtain a bulk sample. Work is now in progress to achieve this objective and it is anticipated that more detailed and specific information will be available in the next few months.

During the past twelve months we have continued our exploration efforts in a number of areas of Eastern Canada and the Northeastern United States. While several interesting prospects were uncovered, none proved to be of economic significance. There are still several which need further evaluation and this will be undertaken during the current field season.

To date your company's approach to expansion and diversification has been tempered by caution and so far this policy has proven to be the correct path to follow. However, as we look into the future with growing confidence and enthusiasm, management believes that there is now room for undertaking certain ventures where the risks are higher than normal, but at the same time offer much greater rewards than are available in other forms of investments. Since Canadian

Merrill is essentially an extractive resource company our high risk exposure will be directed primarily in those areas with possibly more emphasis placed on oil and gas. Also, and where possible we will seek partners in such ventures. In keeping with this concept, Canadian Merrill in conjunction with others was successful in obtaining a concession of approximately 60,000 acres in the North Sea. To date our investment in this project is minimal, but if we are to proceed with further work, costs will escalate fairly rapidly, unless we choose to farm out our interest to other parties. On the other hand a successful well has recently been completed on the diagonally offsetting block which makes our acreage very promising. At present we are engaged with others in making a submission to the Government of Denmark to obtain a concession along the western coastal waters of Greenland. A considerable amount of seismic surveying has already been completed over the area of interest and the results so far make us very optimistic over the potential. Hopefully, by the time of the Annual Meeting we will have more specific news on this.

On the whole the past twelve months have been an extremely active period for your company. The decision to participate in various phases of the petroleum industry represents a new departure for Canadian Merrill. However, since there are many similarities between the mining business and the oil and gas industry, we strongly believe that we will be able to integrate the operations smoothly

to achieve a common objective of increasing the assets and earning power of the company.

For the first time in many years your management believes that this company is on a firm foundation which will allow a controlled and pre-planned growth. We therefore look to the future with confidence and enthusiasm.

In recognition of the changing character of your company, three new directors were appointed to the Board to fill vacancies created through resignations. Management is pleased to welcome Mr. Horace ReKunyk and Mr. Mathew Baldwin not only as directors, but also as Vice Presidents of the company and Mr. Lee Hallowell as a director. All three of these individuals bring a broad range of experience in their respective fields and we feel certain that they will make a valuable contribution to the future affairs of the company. At the same time Management on behalf of the shareholders wishes to express their thanks to Mr. Maurice Samson, Mr. Fridolin Simard and Mr. Jean Paul Tardif for their very considerable help in directing the affairs of the company during the many years they served as directors. Their wise counsel and experience will be sorely missed.

It is with deep regret and sorrow that we inform the shareholders of the untimely death of Mr. J. O. Sabourin, the long time Secretary-Treasurer of the company. To his wife and relatives we extend our deepest sympathy.

In closing and on behalf of all of the shareholders we would like to express our thanks to our employees who have worked so hard during the past year.

Respectfully submitted on behalf of the Board of Directors.



R. P. Mills,  
Chairman of the Board.



H. J. Mockler,  
President.

September 25, 1972  
Montreal, Quebec.

# Financial

Gross income for the year rose 61% to \$1,387,642 from \$856,212. Although there was a moderate increase in income from the profit sharing agreement with the Icon Sullivan Joint Venture, by far the bulk of the rise was attributed to the consolidation for the first time of the accounts of Baldwin and Knoll Ltd. and L & M Oilfield Equipment. The Provident figures are accounted for on a pooling of interest basis and consequently assumes that this subsidiary was owned for the full twelve months. Under accounting principles however, the other two subsidiaries can only be reflected in the Canadian Merrill Statements from date of acquisition. Therefore only operations of one month of both of these latter companies are shown.

Total expenses excluding non cash charges such as depreciation, amortization of deferred expenditures and equity in loss of affiliated companies amounted to \$1,309,008, leaving a pre-tax cash flow of \$78,634 and an after tax cash flow of \$62,436. At the same time and in recognition of the changed nature and character of the company, the directors, after consultation with the auditors, decided to reappraise certain assets. Taking all of these items into account the loss for the year was \$1,180,838. It is not anticipated that such extraordinary expenses will be repeated during the current fiscal period.

At the year end the company had a negative working capital of about \$733,000. This deficit however does not pose a serious problem since Canadian Merrill still retains a

substantial portfolio of marketable securities from which it could draw on if needed. Shareholders will also note that bank loans and long term debt have increased sharply over the past year. The majority of these loans are secured by the company's oil and gas reserves, the revenue from which is adequate to cover principal and interest repayments. The balance of the bank debts are working capital loans to Baldwin and Knoll and L & M Oilfield Equipment and are well secured by the assets of those subsidiaries. Your management is confident that the current fiscal year will witness a substantial improvement in the financial picture of the company.

# Oil and Gas Operations

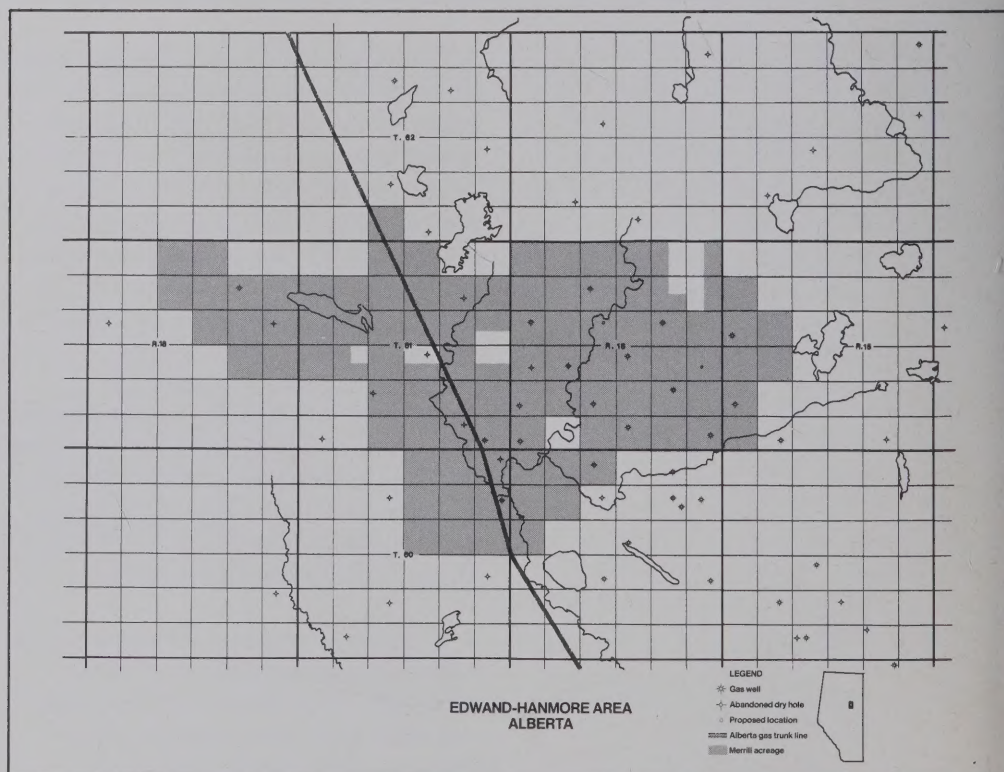
## Exploration and Development

Since the last Annual Report to shareholders, Canadian Merrill through its wholly-owned subsidiary Provident Resources Ltd., participated in the drilling of 26 wells resulting in the completion of 21 gas and 3 oil wells.

The majority of this year's drilling was conducted in association with the Provident Oil and Gas Program 1971, a limited partnership comprised of U.S. citizens, providing a drilling budget of \$1,500,000 for non capital costs. The drilling activity resulted in 2 oil and 5 gas discoveries from the 12 drilling ventures undertaken in Western Canada during the year. The

Company through its agreement with this Program earned approximately a 50% working interest in these discoveries and subsequent development drilling prospects, by providing the funds required for tangible costs.

The current year's drilling program (Provident Oil and Gas Program 1972) is presently open for subscription to the public in the U.S.A. and is expected to commence operations in late September providing a drilling budget for non capital costs of approximately \$2,500,000. With the expanded drilling budget available for this year Canadian Merrill will have a considerably greater drilling exposure as compared to the past year when the above discoveries



were made. The majority of these drilling operations will take place in Alberta, where continued emphasis will be placed on the search for natural gas reserves.

#### **Edwand Area, Alberta**

The Company purchased 16,160 acres of Crown permit lands in this area early in 1971 and acquired three farmouts covering a further 7,040 acres. In association with the Provident Oil and Gas Program 1971 twelve wells were drilled on these lands during the year, all of which were completed as gas wells. Up to five producing zones were present in each well with individual pay thicknesses varying from 5 to 50 feet. Drillstem tests recorded flow rates of up to 3 million cubic feet per day from each zone. At least two wells remain to be drilled on these lands, which if successful, will result in at least 75% of the lands being considered productive. Total gas reserves developed in this area exceed 100 billion cubic feet of which Provident Resources' net share is estimated to be 35 billion cubic feet.

The Alberta Gas Trunkline is located approximately three miles west of the Company acreage holdings. Although no contracts have yet been signed for sale of the Edwand gas, the company has been offered a conditional purchase contract at a price of 38¢ per Mcf, with sales to commence in 1974. This represents a substantial increase in gas prices over those previously negotiated in western Canada.



Pipe laying in southern Alberta

#### **Hanmore Area, Alberta**

The Company purchased 33,000 acres of Crown leases in the Hanmore area, adjoining the Edwand properties discussed above. These lands contain four completed gas wells which are presently being tested to more fully evaluate their potential. Following testing of the wells, Provident in conjunction with the 1972 program will drill a minimum of three offset wells to

expand the present productive areas and at least six exploratory wells will be drilled in other prospective areas on this acreage. If favourable results are obtained from these wells, the drilling program will be expanded to carry out the necessary development drilling. Geological conditions in the Hanmore area are expected to be similar to those at Edwand where substantial gas reserves were discovered in 1971.

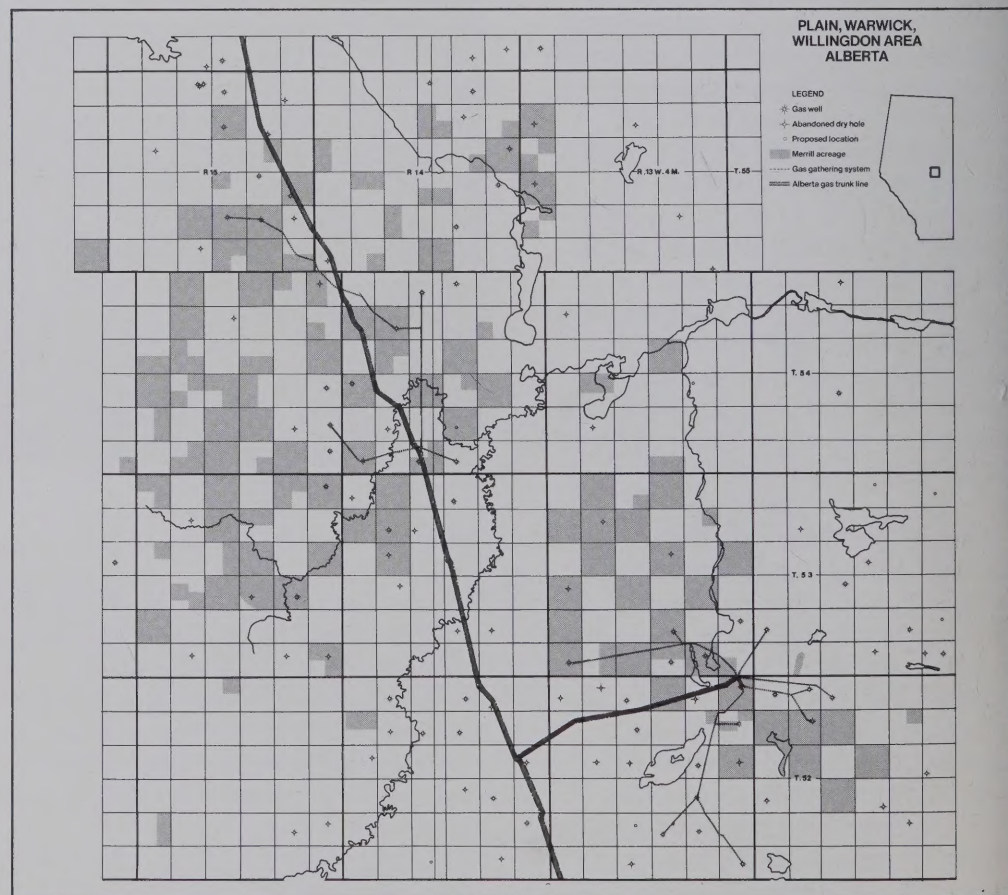
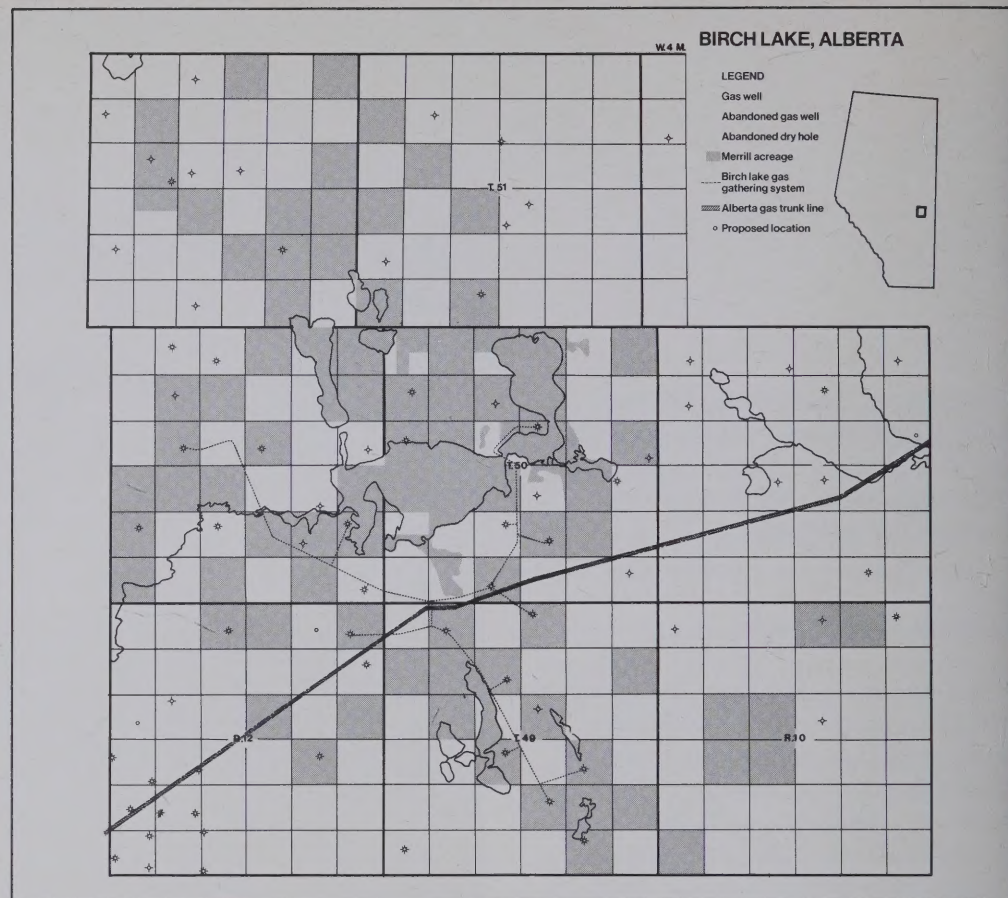
## Birch Lake

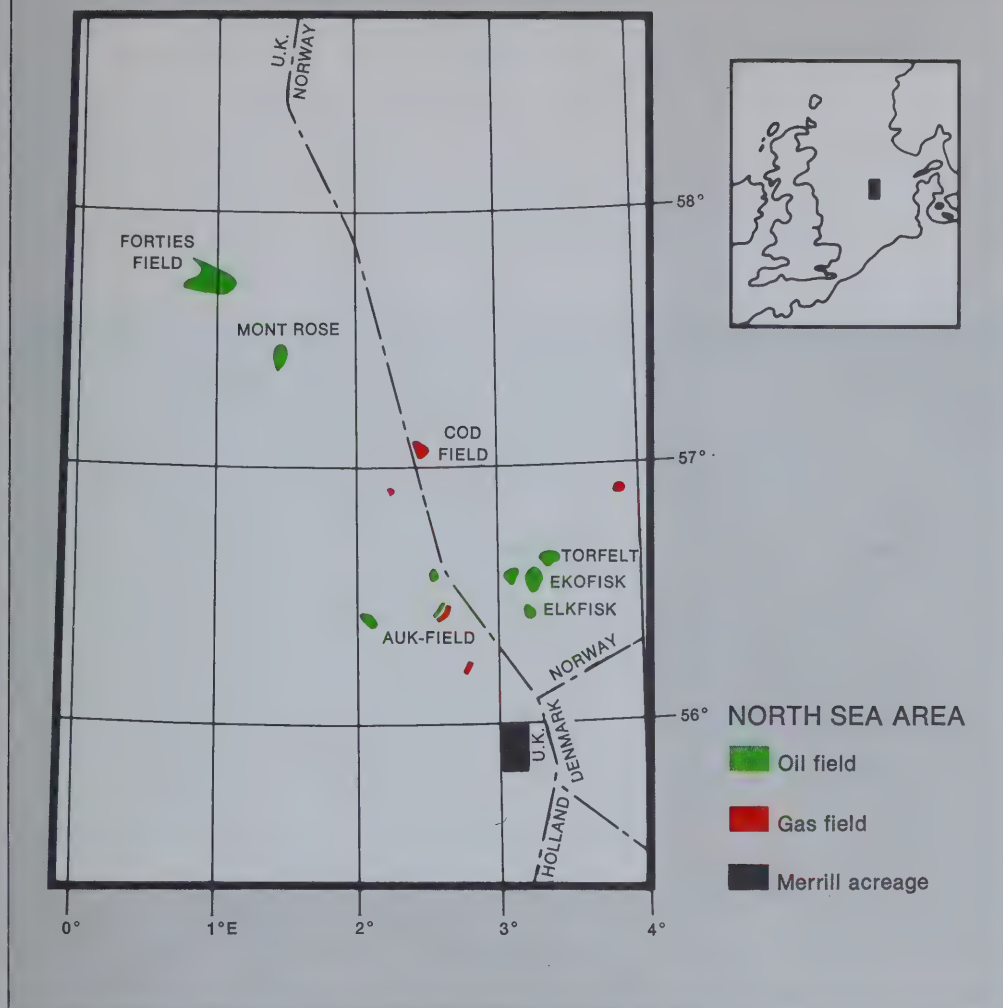
The Company drilled and completed 1 gas well on lands held jointly with the Provident 1971 Program and one wholly-owned well in this area. Both wells found gas in four zones and flowed up to 3.0 million cubic feet per day on drill stem tests. Three other wells were drilled in partnership with another company, all of which were completed as gas wells. As a result of the drilling of these five wells and completion of previously drilled wells, the Company's gas reserves in the Birch Lake field were substantially increased. The Company now holds interests in 20 gas wells in this area. A gas plant is presently being constructed to process the Birch Lake gas with sales expected to commence in October 1972. The Company's share of sales from the Birch Lake field are expected to reach 8 million cubic feet per day in the near future.

## Plain, Warwick and Willingdon Areas

The Company has varying interests in 20 gas wells in these three fields, two of which, Plain and Warwick, are presently on stream. The Company and Program share of production from these two fields average 10 million cubic feet per day. In 1972 Provident will participate in the drilling of one extension test at Plain Lake, and it is anticipated that this will add significantly to both gas reserves and the Company's deliverability from this field.

The Warwick gas plant is currently being expanded to accommodate





of this gas, the Company has been offered a conditional purchase contract at 38¢ per Mcf with sales to start in 1974.

## FOREIGN OPERATIONS

### British North Sea

The Company has the right to earn an interest by participating in the drilling of a well on a 60,825 acre concession in the British sector of the North Sea. This concession is located twenty-five miles south of the Phillips Elkfish oil discovery in the Norwegian North Sea. A recent well completed to extend this field is reported to have flowed 5,000 barrels of oil per day. Eighteen miles to the northwest of the concession, another oil company made a discovery that reportedly flowed 13,000 barrels of oil per day on an indicated potential in excess of 16,000 barrels per day. The Company and its partners plan to carry out a seismic exploration program on the concession area in 1973.

### Offshore Greenland

The Company has an option to participate in concession applications within a large sedimentary basin off the western shores of Greenland. Geophysical studies of this area indicate a number of geologic structures favourable for oil and gas accumulation. The option arrangements permit the Company to acquire up to 30 percent working interest in any concession awards made to its partners.

the additional reserves from the Willingdon field scheduled to commence delivery in October, 1972. Total production for both the company and the program from wells in this field will be approximately five million cubic feet per day.

### Edgerton Area

A gas discovery was made at Provident Edgerton 7-4-45-3 located three miles south of previous Company gas completions in this area. This well drillstem tested over 3 million cubic feet per day from the Colony sand.

A gas contract has been signed in the area providing for deliveries in the fall of 1972 at an initial price of 16¢

per Mcf at a field gathering point. The terms of this contract enable the company to enter into a further contract with Pan-Alberta Gas Ltd. with deliveries scheduled to commence on November 1, 1974 at an initial price of 38¢ per Mcf.

### Sunnynook Area

In conjunction with the 1971 Program one well was drilled in the Sunnynook area of Eastern Alberta as an extension to a previously discovered gas field. The well, Provident Sunnynook 7-6 drillstem tested 10 million cubic feet per day from the Basal Quartz sand. The 7-6 well proved gas reserves on two sections of Company leases. Although no sales contracts have yet been signed for sale

## Oil and Gas Reserves

On June 30, 1972, Company net reserves as estimated by independent evaluation and consulting engineers totalled the following:

	Net After Royalty Deductions
Oil-Bbls.	2,200,000
Natural gas - Bcf. (Billion cubic feet)	159

Of these reserves, substantially all of the oil properties are on production. Of the natural gas reserves, approximately 118 Bcf. are contracted under the following terms:

- average price of 18¢ per Mcf with  $\frac{1}{4}$  ¢ price escalation each year.
- price redetermination by 1976 at the latest, or earlier if any contracts are signed by the purchaser in the interval at better prices than those negotiated by the Company.

Production is presently being taken from 41 Bcf. of these reserves with a further 77 Bcf. scheduled to be on stream in October, 1972.

The remaining 41 Bcf. representing approximately 25% of the Company's natural gas reserves were not under contract as of June 30, 1972. However, on August 1, 1972 a contract offer was received for these reserves providing the following terms, which are considerably more favourable than those presently in force on the previously contracted gas:

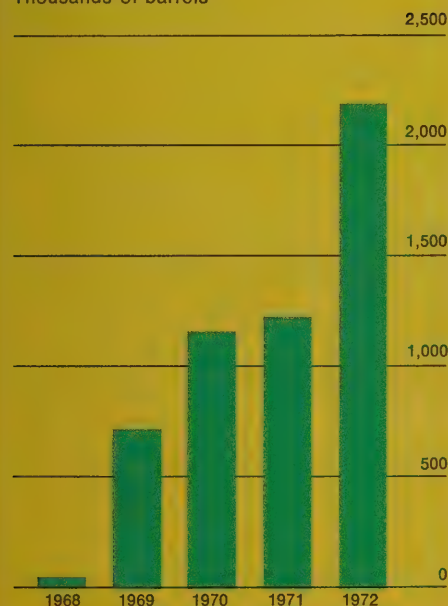
- Term — 5 years from November 1, 1974.



Gas liquefaction plant in Alberta

### Crude oil net barrels

Thousands of barrels



### Natural gas net BCF

Billions of cubic feet



- Price — 38¢ per Mcf escalating by 1¢ per year to 42¢ in the 5th year — Daily contract volume to be established on the basis of deliverability (estimated to be the sale of contracted reserves over an 11-year period).

The graphs at left illustrate the growth of the Company's oil and gas reserves resulting from the acquisition of Provident Resources Ltd. and the purchase of producing properties from former participants of drilling fund programs managed by that same Company. Since 1968 Provident has placed emphasis on the development of natural gas reserves and has enjoyed considerable success in this regard.

### Acreage Holdings:

At year-end the Company held 537,440 gross and 189,234 net acres as follows:

Area or Province	Gross Acreage	Net Acreage
East Coast and Arctic Islands	224,000	37,184
British Columbia	2,700	1,350
Saskatchewan	3,600	1,280
Alberta	306,740	149,280
United States	400	140
Total Canada & United States	537,440	189,234
North Sea	60,825	(Note 1)
Greenland	(Note 2)	










Note 1 — The Company, under the terms of an agreement with the operator has the right to participate in the drilling of a well on a concession comprising 60,825 acres to earn an interest therein.

Note 2 — The Company has acquired an option to participate in concession applications within a non-exclusive exploration area comprising approximately 23 million acres. It is anticipated that the operator of this project will be applying for concessions covering approximately 3 million acres within this area and the Company's option will allow us to acquire up to a 30 percent working interest in the successful awards.

136° 134° 132° 130° 128° 126° 124° 122° 120° 118° 116°

NORTHWEST

# REFERENCE

-  OIL FIELD
-  GAS FIELD
-  OIL PIPELINE
-  PROPOSED OIL PIPELINE
-  GAS PIPELINE
-  PROPOSED GAS PIPELINE
-  MERRILL ACREAGE
-  AREAS OF MERRILL OIL & GAS INTERESTS
-  MERRILL WELL SERVICING FACILITIES

ALBERTA

BRITISH COLUMBIA

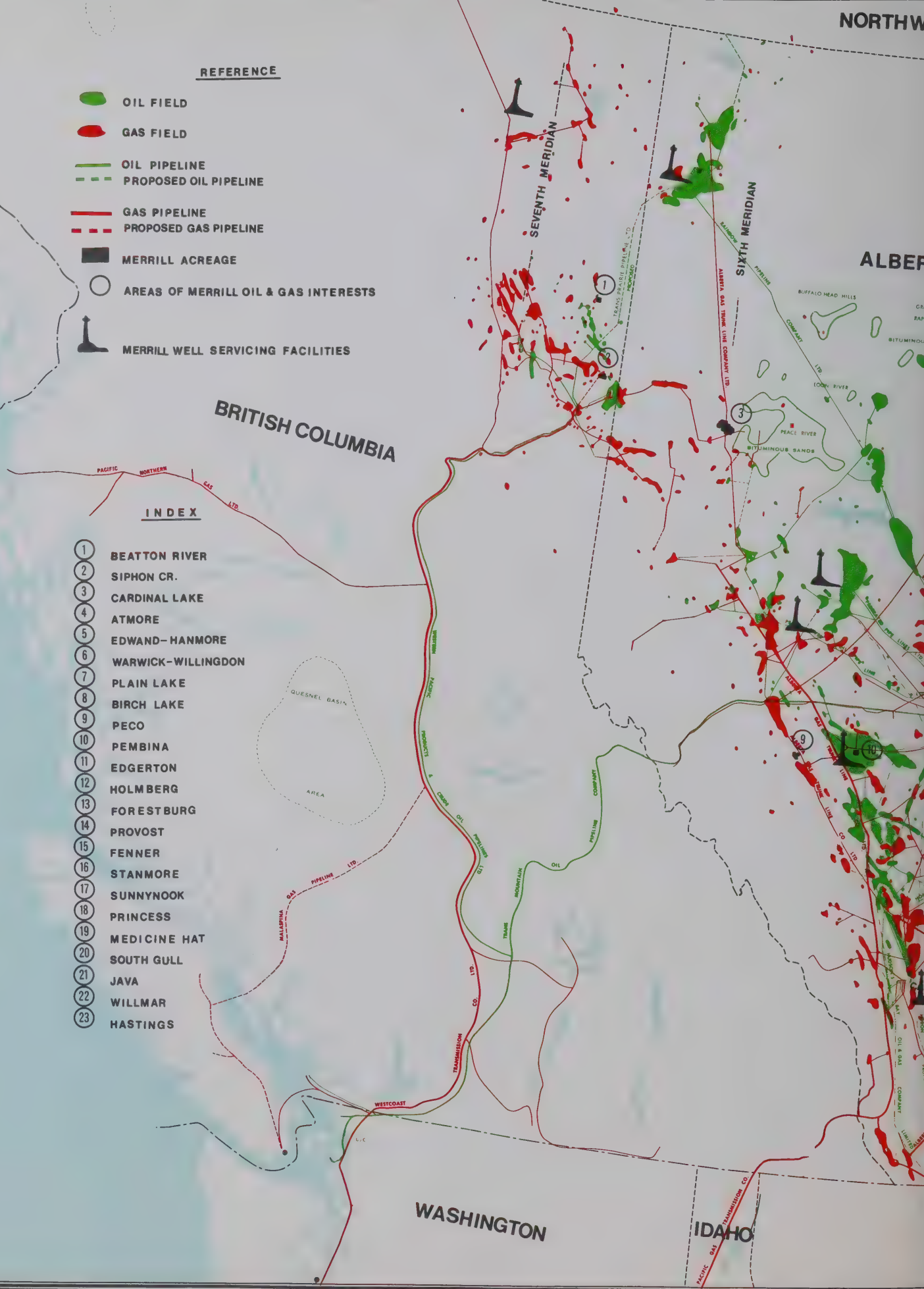
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QUESNEL BASIN  
AREA

WASHINGTON

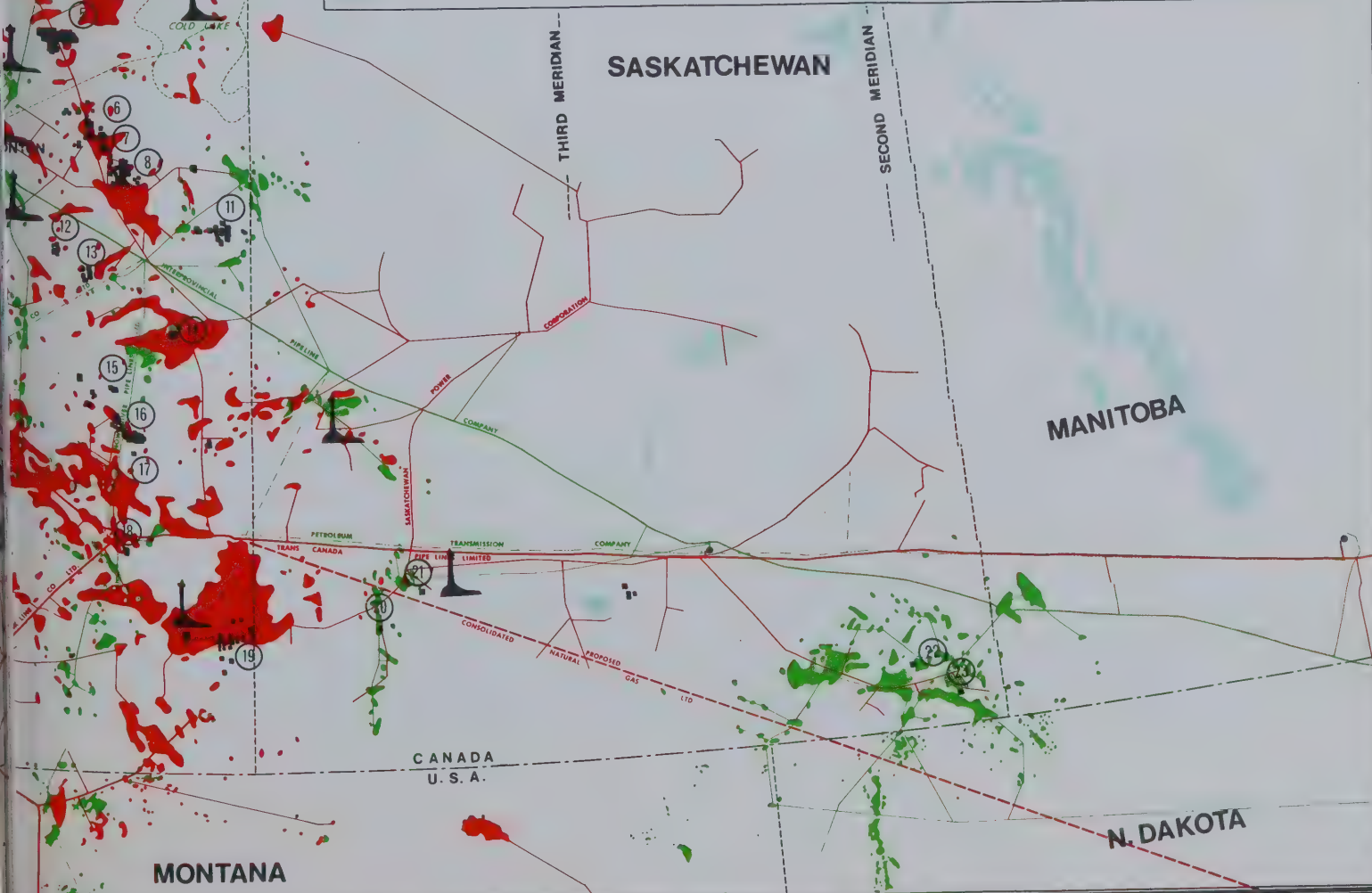
IDAHO



14° 112° 110°

TERRITORIES

60°



# Service Operations

## Baldwin & Knoll Limited

For the fiscal year ended June 30, 1972, Baldwin & Knoll Limited enjoyed a record year in all categories. Sales were \$4,039,000, an increase of \$1,819,000 while cash flow rose 26%. In addition to the improvement in the financial picture a considerable expansion was experienced in the total number of service rigs. Taking into account subsidiaries and affiliates, a total of seven new units were added to the company's fleet. In all the group now has 32 service rigs and one drilling rig and comfortably retains its position as number one in the industry. The most significant unit purchased last year was a Wilson Model 90 rig which has a capability of servicing wells of up to 25,000 feet in depth, which at present, would cover any well in operation in Canada. The cost of this new service vehicle, including related components, exceeded \$300,000 and is possibly the best equipped rig of its type in North America. Shortly after acquisition the Wilson unit was exhibited to the petroleum industry and was enthusiastically received. It is currently operating in the Northwest Territories and should remain in that area for some time. Capital expenditures for the group amounted to \$850,000, the bulk of which was supplied by bank loans.

The new schedule of wellhead prices for natural gas is expected to encourage new activity in the gas potential areas of Alberta. In particular, these wells which were drilled and shut in a few years ago because of the lack of transportation facilities or because of marginal economics



Service unit on the move to new location

will likely be re-evaluated in the light of the changed economics. This, of course, will require the use of service vehicles and consequently will provide a strong continuing source of business. Although the full impact of this new activity will not be felt for at least two more years, it has begun and will accelerate in the coming months. On the whole, it is anticipated that Baldwin & Knoll will enjoy another excellent year's growth in both sales and earnings.

### L & M Oilfield Equipment Ltd.

This subsidiary was acquired at the end of the last calendar year. Its operations consist of selling and leasing new and used equipment to the exploration, producing and servicing sides of the oil and gas industry. Although it had only been in business for a short time it is staffed

by personnel which have been associated with this type of operation for twenty or more years. At the time of the acquisition the personnel had already demonstrated its ability to run a successful business, but of greater importance is the substantial growth in both sales and earnings which has taken place since it became a division of Canadian Merrill. L & M Oilfield Equipment not only complements Baldwin & Knoll in many ways, but also adds a new dimension to our expanding interests in the service aspects of the petroleum industry. The company is continuing to pursue an aggressive sales policy and at the same time is studying other areas of business into which it may wish to diversify at some time in the future. During the past few months this policy has been rewarded since sales are at record levels and profit margins have been maintained. Current indications are that this situation will



Baldwin & Knoll service unit on display

continue for the foreseeable future and that L & M Oilfield Equipment will make a significant contribution to the overall profitability of Canadian Merrill.

#### **Magnetics International Ltd.**

Magnetics International Ltd., a company in which we have a major investment earned \$139,013 or 4.4 cents per share on sales of \$1,204,065 for the six months ended June 30, 1972. Cash generated for the period was \$230,303 equal to 7.3 cents per share, while net working capital went up from \$29,237 to \$424,636.

The company is doubling its ferrite production at Ogdensburg plant at a cost of \$350,000 and this should add substantially to its growth and profits in future years.

Magnetics financed the expansion and the retirement of debentures through the private placement of 650,000 shares of capital stock at \$1.00 per share. Canadian Merrill participated in the financing and now owns approximately 19% of outstanding shares of Magnetics.

Sales of Jones Magnetic Separators will contribute substantially to earnings this year and with the increased capacity for ferrite powder due to come on stream in September, the company should have a profitable year.

# Mining Operations

## Milling

The Merrill concentrator continued to operate exclusively on ores of the Icon Sullivan Joint Venture. There was a small reduction in the tonnage treated but the grade was slightly higher resulting in an increase in the amount of copper produced. A still further improvement in the percentage recovery and grade of concentrate was obtained. The agreement with Icon has been extended for a further three years to expire in May 1975.

Metallurgical results for the year and a comparison with those of last year are as follows:

	1972	1971
Tons milled	217,212	221,481
Grade of Copper (%)	3.11	2.83
Tons of Concentrate	24,447	22,883
Grade of Concentrate (%)	27.04	26.66
Contained copper in concentrate (Lbs)	13,219,905	12,203,070
Recovery (%)	97.73	97.41

## Mining

There was an increase in the tonnage of ore produced from the mine. Most of the ore was preconcentrated in the heavy media ore sorting plant which effectively up-graded the copper content of the material sent to the Merrill concentrator. 388,500 tons were preconcentrated to produce 188,500 tons of ore and 200,000 tons of reject material.

Mining operations compared with last year are as follows:

	1972	1971
Ore burden (tons)	390,550	301,100
Ore mucked (tons)	396,640	350,341
Drift advance (feet)	8,980	6,154
Waste broken (tons)	48,520	48,686
Waste mucked (tons)	46,140	57,902

## Exploration

Exploration was carried out in Quebec, Nova Scotia and New Brunswick. Nineteen properties were investigated and prospected in the Maritimes. One prospect was drilled in New Brunswick where 8 holes, totalling 4,630 feet, were drilled to investigate a barite-celestite and base metal showing. The results were negative for the base metals and the amount of barite-celestite was considered uneconomic.

The majority of the work done in Quebec was exploring and giving technical assistance to a subsidiary company, Quebec Uranium Mining Corporation. This long range program is centered in the Mistassini Lake basin and its prime emphasis is to find another "Icon type" of ore deposit. Two zones of anomalies were explored with 6 holes totalling 2,217 feet of diamond drill core and one other was sampled by geochemical means. The results were disappointing and these properties have been abandoned. The program will be continued on other properties however until all anomalies have been fully explained.

The company has entered into a working agreement with Perch River Mines Limited under which Canadian Merrill would acquire a 50% interest by completing development expenditures of up to \$300,000. The property consists of approximately 120 mining claims located in Gauvin township about 50 miles north of the town of Chibougamau and eight miles north of the Icon-Sullivan deposit.

The prospect appears to be an "Icon" type of mineral deposit on which a large amount of surface drilling has been completed, indicating wide-spread copper mineralization. This company will explore the deposit by underground means, consisting of several hundred feet of drifting on the vein and bulk sampling to determine the value and tenor of the copper mineralization. The access road has been built, the clearing completed and overburden removal has commenced. A declined adit will be started by the first part of September.



Merrill milling plant



Icon Sullivan joint venture preconcentration plant



and Consolidated Subsidiary Companies

# Consolidated Balance Sheet

as at June 30, 1972 (in Canadian dollars)

**assets**
**Current assets:**

Cash . . . . .	\$ 79,371	\$ 940,515
Accounts receivable . . . . .	1,813,868	739,229
Unbilled costs (Note 2) . . . . .	196,939	140,740
Inventories (Note 3) . . . . .	273,823	152,500
Prepaid expenses . . . . .	56,533	18,790
	<u>2,420,534</u>	<u>1,991,774</u>

**Investments (Note 4):**

Marketable securities . . . . .	1,842,330	2,175,893
Companies not more than 50% owned . . . . .	219,101	744,164
Unconsolidated subsidiary . . . . .	168,775	24,964
	<u>2,230,206</u>	<u>2,945,021</u>

Advances to drilling fund programs (Note 2) . . . . .	97,735	—
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Property, plant and equipment, at cost (Note 5) . . . . .	11,457,280	3,636,442
Less: Accumulated depreciation and depletion . . . . .	3,486,746	1,391,767
	<u>7,970,534</u>	<u>2,244,675</u>

Deferred expenditures (Note 6) . . . . .	150,855	382,097
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Intangible assets — excess of cost of subsidiaries over book value (Note 1) . . . . .	1,119,501	—
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Other assets, at cost . . . . .	34,089	19,562
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Approved on behalf of the board:

R. P. MILLS, Director

H. J. MOCKLER, Director

\$14,023,454
\$ 7,583,129

liabilities

Current liabilities:

	1972	1971
Bank indebtedness (Note 7) . . . . .	\$ 1,021,178	\$ 55,192
Accounts payable and accrued liabilities . . . . .	1,244,813	783,179
Principal due within one year on long term debt . . . . .	887,534	139,372
	<u>3,153,525</u>	<u>977,743</u>
Long term debt (Note 8) . . . . .	3,403,219	499,577
Deferred oil and gas income . . . . .	242,677	—
Deferred income taxes (Note 9) . . . . .	721,782	193,321
Minority interest in subsidiaries . . . . .	9,416	—
Contingent liabilities and commitments (Note 10) . . . . .		

shareholders' equity

Capital stock (Note 11)

Authorized —

- 2,000,000 preferred shares of \$5 par value
- 4,000,000 common shares of no par value

Issued —

- 2,013,420 common shares . . . . .

(Deficit) retained earnings . . . . .	(196,702)	1,063,961
	<u>6,492,835</u>	<u>5,912,488</u>
	<u>\$14,023,454</u>	<u>\$ 7,583,129</u>

# Consolidated Statement of Operations

for the year ended June 30, 1972 (in Canadian dollars)

**Revenues:**

Sales and other operating revenues . . . . .	
Investment and other income . . . . .	

1972	1971
\$ 1,308,435	\$ 721,764
79,207	134,448
<u>1,387,642</u>	<u>856,212</u>

**Expenses:**

Costs of sales and operations . . . . .	
General and administrative expenses . . . . .	
Interest on long term debt . . . . .	
Other interest . . . . .	
Depreciation and depletion . . . . .	
Amortization of deferred expenditures (Note 6) . . . . .	

530,815	149,350
396,972	302,623
106,343	—
32,654	—
205,304	80,262
28,152	28,152
<u>1,300,240</u>	<u>560,387</u>

Income before the following . . . . .	
Exploration expenses . . . . .	
Equity in losses of unconsolidated subsidiary and companies not more than 50% owned . . . . .	

87,402	295,825
158,881	190,249
130,637	68,593
<u>289,518</u>	<u>258,842</u>
<u>(202,116)</u>	<u>36,983</u>

**Other charges**

Mining claims and related deferred expenditures written off (Note 6) . . . . .	
Costs incurred in connection with the acquisition of Provident Resources Ltd. . . . .	

270,580	—
82,778	—
<u>353,358</u>	<u>—</u>

Income (loss) before income taxes, minority interest and extraordinary item . . . . .	
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(555,474)	36,983
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**Income taxes (Note 9):**

Current . . . . .	
Deferred . . . . .	

16,198	—
23,980	125,337
<u>40,178</u>	<u>125,337</u>

Minority interest in subsidiaries . . . . .	
---	--

565	—
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Loss before extraordinary item . . . . .	
--	--

(596,217)	(88,354)
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Provision for decline in value of marketable securities (Note 4) . . . . .	
--	--

584,621	—
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Loss for the year . . . . .	
-----------------------------	--

<u>\$ (1,180,838)</u>	<u>\$ (88,354)</u>
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**Loss per common share (Note 12):**

Before extraordinary item . . . . .	
Extraordinary item . . . . .	

\$ (0.36)	\$ (0.08)
(0.35)	—

Loss for the year . . . . .	
-----------------------------	--

<u>\$ (0.71)</u>	<u>\$ (0.08)</u>
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 **Canadian Merrill Ltd.**  
and Consolidated Subsidiary Companies  
**Consolidated Statement of Deficit**  
for the year ended June 30, 1972 (in Canadian dollars)

	1972	1971
Retained earnings, beginning of year:		
Opening balance after taking into account pooling of interests (Note 1) . . . . .	\$ 1,331,074	\$ 1,350,835
Less:		
Adjustment arising from adoption of equity accounting policy (Note 1) . . . . .	167,113	98,520
Accrual for settlement of legal claim (Note 10(a) ) . . . . .	100,000	100,000
	<u>267,113</u>	<u>198,520</u>
As restated . . . . .	1,063,961	1,152,315
Loss for the year . . . . .	(1,180,838)	(88,354)
Capital reorganization expenses . . . . .	<u>(79,825)</u>	<u>—</u>
(Deficit) retained earnings, end of year . . . . .	<u>\$ (196,702)</u>	<u>\$ 1,063,961</u>

## Auditors' Report

To the Shareholders of  
Canadian Merrill Ltd.:

We have examined the consolidated balance sheet of Canadian Merrill Ltd. and consolidated subsidiary companies as at June 30, 1972 and the consolidated statements of operations, deficit, and changes in financial position for the year then ended, and have obtained all the information and explanations we have required. Our examination of the financial statements of Canadian Merrill Ltd. and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain consolidated subsidiaries, which statements reflect total assets and revenues constituting 55% and 66%, respectively, of the related consolidated totals. These statements were examined by other auditors whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for these companies, is based solely upon the reports of other auditors.

In our opinion, subject to the outcome of the matters set forth in Note 10(a), and according to the best of our information and the explanations given to us, and as shown by the books of the companies examined by us and the audited statements furnished to us, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at June 30, 1972 and the results of their operations and the changes in their financial positions for the year then ended, in accordance with generally accepted accounting principles. These accounting principles have been applied on a basis consistent with that of the preceding year after giving effect to the restatements (which we approve) described in Note 1.

The comparative figures as at June 30, 1971 and for the year then ended are based upon the financial statements for that year as reported upon by other independent public accountants (after giving effect to the restatements referred to above).

PRICE WATERHOUSE & CO.  
Chartered Accountants

Montreal, Canada  
September 28, 1972



# Canadian Merrill Ltd.

and Consolidated Subsidiary Companies

## Consolidated Statement of Changes in Financial Position

for the year ended June 30, 1972 (in Canadian dollars)

Working capital was provided by:

Operations

	1972	1971
Loss before extraordinary item . . . . .	\$ (596,217)	\$ (88,354)
Less: Expenses not involving outlay of working capital:		
Depreciation and depletion . . . . .	205,304	80,262
Amortization of deferred expenditure . . . . .	28,152	28,152
Equity in losses of unconsolidated subsidiary and companies not more than 50% owned . . . . .	130,637	68,593
Deferred exploration expenses written-off . . . . .	270,580	—
Deferred income taxes . . . . .	23,980	125,337
	62,436	213,990
New long term debt . . . . .	1,930,000	1,762,929
Issue of common shares (Note 1) . . . . .	1,841,010	153,200
Sale of marketable securities . . . . .	225,100	569,413
Increase in deferred income . . . . .	242,677	—
Decrease in advances to drilling fund programs . . . . .	525,345	—
Other . . . . .	20,765	21,914
	<u>4,847,333</u>	<u>2,721,446</u>

Working capital was used for:

Acquisition of subsidiary companies . . . . .	2,074,266	—
Purchase of marketable securities . . . . .	410,686	1,117,928
Additions to property, plant and equipment (net) . . . . .	3,017,015	1,427,176
Capital re-organization expenses . . . . .	79,825	—
Increase in deferred expenditures . . . . .	16,397	274,348
Reduction of long term debt . . . . .	971,884	120,000
Increase in advances to drilling fund programs . . . . .	—	919,236
	<u>6,570,073</u>	<u>3,858,688</u>

Decrease in working capital for year . . . . .	\$ <u>1,722,740</u>	\$ <u>1,137,242</u>
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Changes in working capital:

Increase (decrease) in current liabilities:

Bank indebtedness . . . . .	\$ 965,986	\$ 42,412
Accounts payable . . . . .	461,634	423,504
Principal due within one year on long term debt . . . . .	868,162	(75,968)
	<u>2,295,782</u>	<u>389,948</u>

Less: Increase (decrease) in current assets

Cash . . . . .	(861,144)	(603,381)
Accounts receivable . . . . .	1,074,639	(160,235)
Other current assets . . . . .	215,265	16,322
	<u>428,760</u>	<u>(747,294)</u>

	1,867,022	1,137,242
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Less: Working capital deficiency of subsidiaries acquired during year . . . . .	144,282	—
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	<u>\$ 1,722,740</u>	<u>\$ 1,137,242</u>
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# Canadian Merrill Ltd.

and Consolidated Subsidiary Companies

## Notes to Consolidated Financial Statements

at June 30, 1972

### 1. Principles of consolidation

The consolidated financial statements include the accounts of the Company and all its subsidiaries except for Quebec Uranium Mining Corporation (N.P.L.) which has not been consolidated because the Company intends to dispose of its controlling interest in the near future.

During the year the Company adopted the equity method of accounting for companies more than 20% owned. The consolidated loss therefore includes the Company's equity in the net income or losses of its unconsolidated subsidiary and companies owned in proportions from 20% to 50%. The table below, shows the effect of this adjustment, as well as the effect of the acquisition of Provident Resources Ltd.

On December 16, 1971 the Company acquired Provident (formerly Provident Resources Management Ltd.), whose principal business is the management of oil and gas drilling programs, by the issue of 561,150 common shares in exchange for all the issued and outstanding shares of Provident, on the basis of 0.75 shares of the Company for each share of Provident. The acquisition has been accounted for as 'pooling of interests'. Details of the effect of this transaction on the consolidated financial statements are shown below.

	Year ended June 30	
	1972	1971
Revenues		
Excluding Provident . . . . .	\$ 966,349	\$ 328,631
Revenue of Provident . . . . .	421,293	527,581
	<u>\$ 1,387,642</u>	<u>\$ 856,212</u>
Loss before extraordinary item		
Excluding undernoted items . . . . .	\$ (474,419)	\$ (174,995)
Net income of Provident . . . . .	8,839	155,234
Equity in losses of unconsolidated subsidiary and companies not more than 50% owned . . . . .	(130,637)	(68,593)
	<u>\$ (596,217)</u>	<u>\$ (88,354)</u>
Loss		
Excluding undernoted items . . . . .	\$ (1,059,040)	\$ (174,995)
Net income of Provident . . . . .	8,839	155,234
Equity in losses of unconsolidated subsidiary and companies not more than 50% owned . . . . .	(130,637)	(68,593)
	<u>\$ (1,180,838)</u>	<u>\$ (88,354)</u>

The revenues and net income of Provident from July 1, 1971 to date of acquisition were \$256,956 and \$32,593 respectively.

On May 26, 1972, the Company acquired majority interests in Baldwin & Knoll Limited and Central Mining Corporation (N.P.L.). The consideration for 43,408 of the outstanding shares of Baldwin & Knoll, whose principal business is the leasing of service rigs to oil and gas companies, was 310,560 common shares of the Company and \$80,000 in cash. This acquisition increased the Company's direct ownership of Baldwin & Knoll from 21.3% to 79.2%.

The consideration for 182,080 of the common shares of Central Mining, an investment company whose principal asset is 20.8% of the outstanding shares of Baldwin & Knoll, was 57,642 common shares of the Company and \$5,500 in cash. This increased the Company's ownership of Central Mining from 47.2% to 97.8%.

Prior to May 26, 1972 the Company's investments in the two companies referred to above were carried in the accounts as investments in companies not more than 50% owned.

Their acquisition has been accounted for by the purchase method and, accordingly, the results of their operations have been included in the consolidated financial statements from date of acquisition only.

Pro forma results of operations for the years ended June 30, 1972 and 1971 on the assumption that these companies had been acquired on July 1, 1970 are shown below.

	Year ended June 30	
	1972	1971
Revenues		
As reported . . . . .	\$ 1,387,642	\$ 856,212
Pro forma . . . . .	4,932,732	3,082,153
Income (loss) before extraordinary item		
As reported . . . . .	(596,217)	(88,354)
Pro forma . . . . .	(426,503)	31,802
Net income (loss)		
As reported . . . . .	(1,180,838)	(88,354)
Pro forma . . . . .	(1,011,124)	31,802
Net income (loss) per share		
As reported . . . . .	(\$0.71)	(\$0.08)
Pro forma . . . . .	( 0.60)	0.03

The excess of the cost of the investment in Baldwin & Knoll and Central Mining over the book value of the Company's equity in them at the date of acquisition is being amortized over a twenty year period on a straight line basis.

During the year the Company increased its ownership of Quebec Uranium from 49% to 53%. However, the accounts of this subsidiary have not been consolidated with those of the Company for the reasons stated earlier.

### 2. Oil and gas drilling fund programs

As manager of oil and gas drilling fund programs, a subsidiary company, Provident Resources Ltd., charges each program with allocated direct costs incurred on the program's behalf. Unbilled costs include preliminary expenditures incurred on behalf of a 1972 drilling fund program which was open for subscription at June 30, 1972.

Pursuant to the authority granted to it as manager of the drilling fund programs, Provident finances program continuing activities. Bank loans have been obtained and are secured by assignments of title to certain program properties. Advances to drilling fund programs are considered to be eliminated on allocation of bank loans so obtained. Details of advances to drilling fund programs are as follows:

	1972	1971
Amounts charged to drilling fund programs . . . . .	\$ 1,054,978	\$ 1,580,323
Bank loans allocated . . . . .	957,243	1,580,323
Advances to drilling fund programs . . . . .	<u>\$ 97,735</u>	<u>\$ —</u>

### 3. Inventories

	1972	1971
Oil and gas equipment for resale, at lower of cost and net realizable value . . . . .	\$ 146,617	\$ —
Mill supplies, at lower of cost and replacement cost . . . . .	127,206	152,500
	<u>\$ 273,823</u>	<u>\$ 152,500</u>

### 4. Investments

(a) Marketable securities:

As at June 30, 1972 these investments were valued at \$1,842,330 being cost of \$2,426,951 less a provision of \$584,621 for a decline in their market value which management considers to be of a permanent nature. Quoted value of these investments was \$1,833,795 at June 30, 1972 and \$1,673,421 at June 30, 1971.

(b) Investments in companies not more than 50% owned:

	1972	1971
Shares, at cost plus equity in undistributed net income since acquisition . . . . .	\$ 35,273	\$ 744,164
Advances . . . . .	183,828	—
	<u>\$ 219,101</u>	<u>\$ 744,164</u>

(c) Investment in unconsolidated subsidiary:

	1972	1971
Shares, at cost less equity in losses since acquisition . . . . .	\$ 145,775	\$ 10
Advances . . . . .	23,000	24,954
	<u>\$ 168,775</u>	<u>\$ 24,964</u>

In prior years, investments were reflected in the Company's financial statements as current assets. It is the opinion of management that these investments would be more appropriately disclosed as non-current assets and accordingly they have been so reclassified for financial statement purposes.

### 5. Property, plant and equipment

	1972	1971
Cost:		
Land and buildings . . . . .	\$ 1,328,734	\$ 602,692
Petroleum and natural gas interests . . . . .	4,582,763	1,668,452
Service rigs and related equipment . . . . .	3,542,584	—
Mill buildings and related equipment . . . . .	1,298,676	1,312,689
Rental equipment . . . . .	311,936	—
Other equipment . . . . .	392,587	52,609
	<u>11,457,280</u>	<u>3,636,442</u>
Accumulated depreciation and depletion:		
Buildings . . . . .	522,067	386,922
Petroleum & natural gas interests . . . . .	149,283	48,598
Service rigs and related equipment . . . . .	1,616,467	—
Mill buildings and related equipment . . . . .	982,233	945,244
Rental equipment . . . . .	41,350	—
Other equipment . . . . .	175,346	11,003
	<u>3,486,746</u>	<u>1,391,767</u>
	<u>\$7,970,534</u>	<u>\$2,244,675</u>

The Company and its subsidiary, Provident Resources Ltd., follow the "full cost" method of accounting for petroleum and natural gas properties. Under this method all costs relating to the exploration for and development of oil and gas reserves are capitalized. Proceeds of disposal of properties and equipment together with the applicable accumulated depreciation and depletion are applied to reduce the cost of the remaining assets. Depletion of exploration and development costs and depreciation of production equipment

are provided for by the unit-of-production method based on the estimated proven recoverable reserves of oil and gas.

Mill buildings and related equipment, less estimated salvage value, are being depreciated over the estimated life of a copper ore body milled under a joint venture agreement which expires in May 1975. These assets are located on property leased at an annual rental of \$1 under an agreement extending for a period of seven years after the termination of the agreement.

Buildings, service rigs and related equipment, and rental equipment are being depreciated on a straight line basis. Depreciation of other equipment is primarily on the declining balance basis.

6. Deferred expenditures	1972	1971
Deferred exploration expenditures, at cost less amounts written-off . . . . .	\$ 16,397	\$ 162,610
Joint venture preconcentrator-share of cost less amortization . . . . .	134,458	219,487
	<u>\$ 150,855</u>	<u>\$ 382,097</u>

Mining claims and related deferred exploration expenditures for all properties on which the company does not intend to carry out further exploration, have been written off.

The Company has deferred its 10% share in the cost of a preconcentrator plant used under a joint venture agreement for milling copper ore. This amount, less estimated salvage value, is being amortized over the period of the joint venture agreement which expires in May 1975.

#### 7. Bank indebtedness

Bank indebtedness is secured partly by a general assignment of debts and partly by marketable securities.

8. Long term debt	1972	1971
Canadian Merrill Ltd.:		
6½% bank loan, secured by a general assignment of Merrill's interest in petroleum and natural gas properties, repayable monthly, to mature in 1978 . . . . .	\$ 1,300,000	\$ —
Interest free gas contract prepayment, repayable monthly, to mature in 1977 . . . . .	56,686	—
5¼% mortgage secured by townsite houses, due in 1972 . . . . .	—	19,372
Provident Resources Ltd.:		
Banks loans, evidenced by demand notes, bearing interest at ¾ of 1% over bank prime rate, secured by a general assignment of company interests in certain petroleum and natural gas properties together with a specific assignment of production from these properties, presently repayable at \$25,000 per month . . . . .	1,433,457	619,577
Baldwin & Knoll Limited:		
8% bank loans, secured by a first mortgage on certain fixed assets and a floating charge debenture, repayable monthly up to 1977 . . . . .	1,033,667	—
9½% first mortgage, secured by specific properties, assignment of rental leases and a floating charge debenture, due July 1978 . . . . .	147,073	—
7 to 10½% first mortgages secured by specific properties due on various dates up to 1984 . . . . .	168,406	—
9 to 12% finance contracts, secured by specific properties, due in 1973 and 1974 . . . . .	93,792	—
8 to 10% loans, partially secured by inventory, with no fixed maturity . . . . .	57,672	—
	<u>4,290,753</u>	<u>638,949</u>
Less: Principal due within one year . . . . .	<u>887,534</u>	<u>139,372</u>
	<u>\$3,403,219</u>	<u>\$ 499,577</u>

Principal repayments over the next five years:

1973	\$887,534
1974	811,286
1975	811,904
1976	778,357
1977	623,822

#### 9. Income taxes

It is the policy of the Company and its subsidiaries to charge earnings with income taxes currently payable and with income taxes deferred by claiming certain expenses for tax purposes before they are recorded in the accounts. The accumulated total of such income tax deferments is shown in the consolidated balance sheet as "Deferred income taxes".

The Company and each of its subsidiaries file separate tax returns. Income tax provisions recorded in the consolidated financial statements relate solely

to subsidiaries. No provision for income taxes was required in the accounts of Canadian Merrill Ltd. (as a corporation) for the years ended June 30, 1972 and 1971, because its operations resulted in losses. Furthermore, expenses charged in the accounts of Merrill but not yet claimed for tax purposes amounted to approximately \$3,000,000 at June 30, 1972 and, in addition, the Company has tax losses amounting to approximately \$180,000 available to be offset against future taxable income.

#### 10. Contingent liabilities and commitments

##### (a) Legal actions:

On March 27, 1972 judgment was rendered against the Company, in the action brought by United Obalski Mining Company, in the amount of \$66,871 plus interest from May 12, 1967, and costs. While the Company has filed an appeal against this judgment, management has considered it prudent to record a provision of \$100,000 against an adverse decision on the appeal.

In 1971 Merrill instituted an action in the Supreme Court of Ontario against J. Patrick Sheridan, Sheridan Geophysics Limited and North Canadian Enterprises for damages in the amount of \$2,068,000 as well as a separate claim for \$58,462. The defendants in this action have counterclaimed for damages totalling \$3,900,000 with respect to the same transaction. Based on the information presently available to legal advisors they do not believe that the counterclaim would be successful.

In August 1971, Provident was served with a statement of claim in the amount of \$256,195 together with interest thereon and court costs with respect to a farmout agreement. Because the action is in its preliminary stages legal counsel is unable to express a firm or detailed opinion on this matter. Management is of the opinion that this claim is unfounded in its entirety and will defend the action.

##### (b) Bank loans:

To the extent that bank loans referred to in Note 2 are not repaid from the proceed of production from, or sale of, program properties, Provident would be directly liable.

##### (c) Oil and gas program operations:

Provident enters into separate agreements with its Programs (organized as co-owner participant joint ventures or partnerships) to acquire and develop oil and gas leases under the management of the company. Generally, the Programs agree to (1) compensate Provident for services rendered by payment of a management fee based on a percentage of expenditures, (2) reimburse Provident for all geological, exploration and direct operating costs, and in the case of earlier programs, (3) an assignment of an overriding royalty and net profits interest in the Program's leaseholds, as defined. In turn, Provident generally agrees to furnish necessary services to conduct the Program's business to the greatest advantage to the Program.

11. Capital stock	Number of shares	Value attributed to shares
Shares issued at July 1, 1971 . . . . .	1,084,068	\$4,405,727
Issued in December 1971 in exchange for the shares of Provident . . . . .	561,150	442,800
Issued in May 1972 in exchange for the shares of Baldwin & Knoll . . . . .	310,560	1,552,800
Issued in May 1972 in exchange for the shares of Central Mining . . . . .	57,642	288,210
Shares issued at June 30, 1972 . . . . .	<u>2,013,420</u>	<u>\$6,689,537</u>

Following approval by the shareholders on December 15, 1971, supplementary letters patent were granted on February 15, 1972 increasing the authorized capital by 2,000,000 common shares.

Merrill has approved the granting of stock options under a plan which permits the allocation to the plan of a number of common shares equal to 5% (103,796 shares at June 30, 1972) of the issued and optioned common shares. The options for 62,500 shares which were outstanding at June 30, 1972 were granted on August 20, 1971 at a price of \$5.00 per share. Options are exercisable over a five year period and not more than 20% may be exercised in one calendar year. The option price cannot be less than 90% of the market price at the date the option is granted.

#### 12. Income or loss per common share

The calculations of income or loss per common share figures shown on the consolidated statement of operations and in Note 1 are based upon the weighted average common shares outstanding during the year after giving retroactive effect to the conversion of each Provident share into .75 of one of the Company's shares.

#### 13. Administrative expenses

Merrill has eight directors who received fees of \$17,400 (\$16,700 in 1971) and six officers, including four directors, who received remuneration of \$104,135 (\$57,500 in 1971) in their capacity as officers.

**Subsidiaries of Canadian Merrill Ltd.**

Baldwin & Knoll Limited

C & S Well Servicing Ltd.

Central Mining Corporation

Foster Cathead Ltd.

Hi-West Well Servicing Ltd.

L & M Oilfield Equipment Ltd.

Meyer Well Servicing Ltd.

Pinky's Well Servicing Ltd.

Provident Resources Ltd.

Quebec Uranium Mining Corporation

Rockwell Well Servicing Ltd.

T-Bird Drilling Ltd.

Triple-B Well Servicing Ltd.

Wardin Well Servicing Ltd.

